

## Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
CEA-01 AGRE-00 DOE-15 SOE-02 IO-13 DODE-00 PM-05  
H-01 L-03 PA-01 /129 W  
-----104948 151536Z /46

R 151425Z MAY 78  
FM AMEMBASSY PRETORIA  
TO SECSTATE WASHDC 1216  
INFO AMCONSUL CAPE TOWN  
AMCONSUL DURBAN  
AMCONSUL JOHANNESBURG

LIMITED OFFICIAL USE SECTION 1 OF 2 PRETORIA 2793

CAPE TOWN ALSO FOR EMBASSY

E.O. 11652: N/A  
TAGS: ECON, SF, EFIN  
SUBJECT: ECONOMIC PROSPECTS AS VIEWED BY SENIOR SOUTH  
AFRICAN ECONOMISTS

SUMMARY: DISCUSSIONS BY EMBOFFS DURING PAST WEEK WITH  
ECONOMISTS OF MAJOR BANKS AND RESEARCH INSTITUTIONS REVEAL  
CONSIDERABLE DIFFERENCES OF OPINION ON SOUTH AFRICA'S  
ECONOMY IN 1978 AND 1979. THEY AGREE THAT GROWTH IN 1978  
WILL STEM PRIMARILY FROM DOMESTIC CONSUMER SPENDING AND  
THAT IN CONTRAST TO 1977 EXPORTS ARE LIKELY TO CONTRIBUTE  
LITTLE TO REAL GROWTH IN VIEW OF WEAKENING OVERSEAS DEMAND.  
DESPITE RECENT INDICATORS REFLECTING AN UPSWING IN BOTH  
CONSUMER SPENDING AND CONFIDENCE, THEY DISAGREE AS TO HOW  
STRONG AND LONG LASTING THE RECOVERY WILL BE, PARTICULARLY  
IN LIGHT OF NEW SALES TAXES AND LIMITED IMPROVEMENT IN  
INFLATION RATE. ESTIMATES OF GROWTH IN REAL GDP IN 1978  
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VARY FROM A HIGH OF 3 PERCENT BY THE CHIEF ECONOMIST FOR NEDBANK  
TO A LOW OF 1-2 PERCENT BY BARCLAYS' ECONOMIST. WHILE 1979 IS  
SEEN BY MOST AS A SOMEWHAT BETTER YEAR THAN 1978, NO ONE  
PROJECTS A RETURN TO ATHE 5-6 PERCENT REAL GROWTH OF THE 60S IN  
THE FORESEEABLE FUTURE. AVERAGE OF 4 PERCENT IS SEEN AS ABOUT  
MAXIMUM ATTAINABLE GROWTH IN CURRENT CIRCUMSTANCES BUT AT  
LEAST TWO ECONOMISTS DOUBT EVEN THIS CAN BE SUSTAINED

WITHOUT NOTABLE IMPROVEMENT IN POLITICAL CLIMATE. ALL THE ECONOMISTS BELIEVE THAT CURRENT ACCOUNT SURPLUS WOULD BE REPEATED IN 1978 WITH ESTIMATES OF AMOUNT VARYING FROM R300 TO R800 MILLION. NET RESERVES WERE ALSO EXPECTED TO SHOW SOME IMPROVEMENT. END SUMMARY

1. IN DISCUSSIONS WITH EMBOFFS, CHIEF ECONOMIST OF SENBANK RUDOLF GOUWS SEES ABOUT 2 PERCENT GROWTH IN REAL GDP IN 1978 AND JUST OVER 3 PERCENT IN 1979. SOURCES OF GROWTH WILL BE PRIVATE CONSUMPTION EXPENDITURE AND INCREASE IN INVENTORIES. A CURRENT ACCOUNT SURPLUS OF R700 MILLION IS PROJECTED FOR 1978 AND R500 MILLION FOR 1979. FOR MEDIUM-TERM FUTURE, GOUWS BELIEVES THAT GROUNDWORK HAS NOW BEEN LAID THROUGH INFRASTRUCTURE INVESTMENTS FOR REVIVED PERIOD OF GROWTH OVER NEXT FIVE YEARS. DUE TO POLITICAL FACTORS, THIS WILL BE BELOW LEVEL OF 1960S (5-6 PERCENT) BUT AVERAGE OF 4 PERCENT IS BELIEVED SUSTAINABLE, FINANCED PRIMARILY THROUGH DOMESTIC INVESTMENT. HE BELIEVES NEED FOR FOREIGN CAPITAL WILL BE CONSIDERABLY LOWER IN 1980 THAN WAS THE CASE IN 1960S.

2. MERTON DAGUT, CHIEF ECONOMIST OF NEDBANK, IS MOST OPTIMISTIC OF LOCAL ECONOMISTS, PROJECTING 3 PERCENT REAL GROWTH RATE IN 1978. HE CITES RECENT DATA OF AN UPTURN IN CONSUMER SPENDING PARTICULARLY ON DURABLES AS EVIDENCE THAT RECOVERY HAS ALREADY STARTED. HE ALSO BELIEVES THAT LIMITED OFFICIAL USE

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STIMULATORY EFFECT OF BUDGET HAS BEEN UNDERESTIMATED BECAUSE CONSIDERABLE FUNDS ARE BEING CARRIED OVER FROM PREVIOUS YEAR. HE ESTIMATES ACTUAL INCREASE IN GOVERNMENT SPENDING IN FY-78/79 AT 13 PERCENT DUE TO THIS FACTOR. ALSO WITH MOST OF INCREASE IN SOCIAL SERVICES AND NONE IN DEFENSE SPENDING WILL HAVE MORE STIMULATORY IMPACT. DAGUT ESTIMATES CURRENT ACCOUNT SURPLUS AT R800 MILLION IN 1978. HE BELIEVES FIRST QUARTER IMPORT FIGURES ARE INFLATED BY CONTAINERIZATION EQUIPMENT AND STOCKPILING.

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CAPE TOWN ALSO FOR EMBASSY

3. AT OTHER EXTREME FROM DAGUT IS PESSIMISM OF JOHAN CLOETE, CHIEF ECONOMIST FOR BARCLAYS BANK. HE PREDICTED TO US THAT CURRENT UPSWING IN CONSUMER SPENDING WOULD PROVE SHORT-LIVED AS NEW 4 PERCENT SALES TAX COMES INTO EFFECT. HE SEES NO REAL STIMULATORY EFFECT FROM BUDGET AND ABILITY OF CONSUMER SPENDING TO FUEL A RECOVERY IS LIMITED DUE TO DECLINES IN REAL WHITE WAGES OVER RECENT YEARS. HE SEES 2 PERCENT REAL GROWTH AS BEST ECONOMY COULD DO IN 1978 AND ACTUAL FIGURE MAY NOT BE MUCH ABOVE 1 PERCENT. 1979 SHOULD BE MODERATELY BETTER AS DOMESTIC INVESTMENT BEGINS TO REVIVE DUE TO LOW INVENTORIES. CLOETE PARTICULARLY STRESSED INFLUENCE OF POLITICAL FACTORS ON CONSUMERS AND DOMESTIC INVESTMENT AND SEES NO SUSTAINED RECOVERY OF CONFIDENCE IN CURRENT POLITICAL CLIMATE. POLITICAL UNCERTAINTIES ARE ROOTED IN BASIC OPPOSITION OF BLACK AFRICAN STATES TO SOUTH AFRICA AND WILL NOT GO AWAY EVEN IF SETTLEMENTS REACHED IN RHODESIA AND NAMIBIA. DO-  
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MESTICALLY, CLOETE EXPRESSED PARTICULAR CONCERN THAT LARGE INCREASE IN BLACK UNEMPLOYMENT IN LAST TWO YEARS IS TAKING ON STRUCTURAL CHARACTER SINCE 4 PERCENT REAL GROWTH RATE WHICH IS BEST COUNTRY CAN HOPE FOR IN CURRENT CIRCUMSTANCES IS NOT ENOUGH TO CREATE NEEDED JOBS.

4. ON BALANCE OF PAYMENTS, CLOETE IS SOMEWHAT MORE OPTIMISTIC, PROJECTING R300 MILLION CURRENT ACCOUNT SURPLUS IN 1978 AND SOME IMPROVEMENT IN NET RESERVES. HE PERSONALLY BELIEVES GOVERNMENT SHOULD MOVE TO MORE EXPANSIONARY FISCAL POLICY AND PROTECT BALANCE OF PAYMENTS THROUGH IMPORT CONTROLS. HE ASSERTED SOUTH AFRICA IS

ALREADY IMPOSING STRICT IMPORT CONTROLS, EVEN OF CAPITAL GOODS, WHICH COULD BE USED TO KEEP BALANCE OF PAYMENTS IN LINE.

5. U.S. CITIZEN MANAGING DIRECTOR OF CITIBANK ALSO FINDS THAT CONFIDENCE, BOTH AT HOME AND ABROAD, IS ABSENT. CURRENT UPSWING IN SALES OF CONSUMER DURABLES IS ONLY A "BUMP" ON CHAZ. NO REAL REVIVAL IS NOW ON HORIZON.

6. JAN SADIE, DIRECTOR OF STELLENBOSCH BUREAU FOR ECONOMIC RESEARCH (BER) IS IN BETWEEN TWO EXTREMES BUT STILL TENDS TOWARD THE PESSIMISTIC SIDE. HE CONFIRMS THAT SURVEYS TAKEN BY THE BER SHOW DEFINITE UPSWING IN CONSUMER CONFIDENCE AND SPENDING ON DURABLES SUCH AS CARS BUT FEELS THAT RECOVERY IS NOT YET BROADLY BASED. ALSO, HE IS CONCERNED THAT CONSUMER CONFIDENCE IS VERY SUSCEPTIBLE TO NEW POLITICAL SHOCKS AND WITH EXPORTS EXPECTED TO SHOW LOWER GROWTH AND LITTLE REAL STIMULUS IN THE BUDGET, HE QUESTIONS IF RECOVERY CAN BE SUSTAINED INTO 1979. HE IS ALSO CONCERNED THAT BALANCE OF PAYMENTS WILL AGAIN COME UNDER PRESSURE IN THE SECOND HALF OF 1978 DUE TO A PROJECTED 2 PERCENT INCREASE IN EXPORTS AND LIMITED OFFICIAL USE

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12 PERCENT GROWTH IN IMPORTS.

7. COMMENT: WE DISCOUNT SLIGHTLY OPTIMISM OF GOUWS AND DAGUT WHO HAVE AN INTEREST IN PERSUADING FOREIGN BANKERS AND BUSINESSMEN THAT ECONOMY HAS TURNED THE CORNER. GOVERNMENT IS SAID TO BE BEHIND RECENT UPBEAT PRESS STORIES IN SUPPORT OF RECENT STATEMENT BY FINANCE MINISTER HORWOOD THAT COUNTRY IS "IN FIRST PHASE OF AN ECONOMIC UPSWING."

8. MOST OF THE ECONOMISTS ARE WATCHING POLITICAL EVENTS WITH CLOSE ATTENTION, CONCERNED OVER THE PSYCHOLOGICAL DAMAGE OF NEW ECONOMIC SANCTIONS IF MATTERS GO BADLY IN RHODESIA AND NAMIBIA. GOUWS' ANALYSIS, HOWEVER, PROJECTS REDUCED DEPENDENCE ON FOREIGN CAPITAL AS A SWING OCCURS TO MORE INVESTMENT IN SOCIAL INFRASTRUCTURE.

9. EMBASSY'S SEMI-ANNUAL TRENDS REPORT NOW IN PREPARATION WILL EXPAND ON THIS MESSAGE.  
NELSON

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## Message Attributes

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